HOUSING MARKET OUTLOOK
St. John's CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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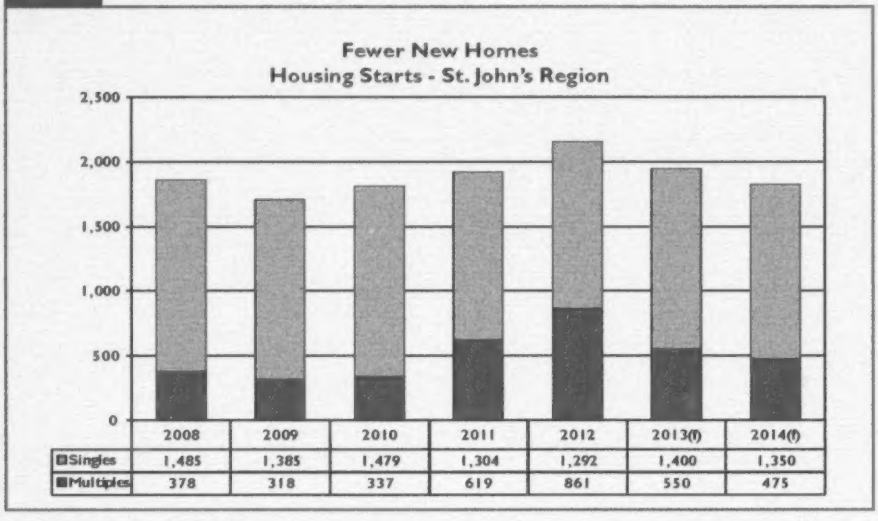
Housing Demand Expected to Continue

Solid economic and demographic factors will see demand for housing continue, but at a slower pace throughout the St. John's area in 2013 and 2014. These factors include low mortgage rates, income growth, full-time employment gains and positive migration. Overall, housing market activity will be slightly lower than last year's highs, but remain strong in historical terms over the forecast period.

Economic Overview

Newfoundland and Labrador (NL) will have the best economic performance in Atlantic Canada in 2013 and 2014 in terms of GDP growth. GDP is

Figure 1



	2008	2009	2010	2011	2012	2013(f)	2014(f)
Singles	1,485	1,385	1,479	1,304	1,292	1,400	1,350
Multiples	378	318	337	619	861	550	475

Source and Forecast: CMHC

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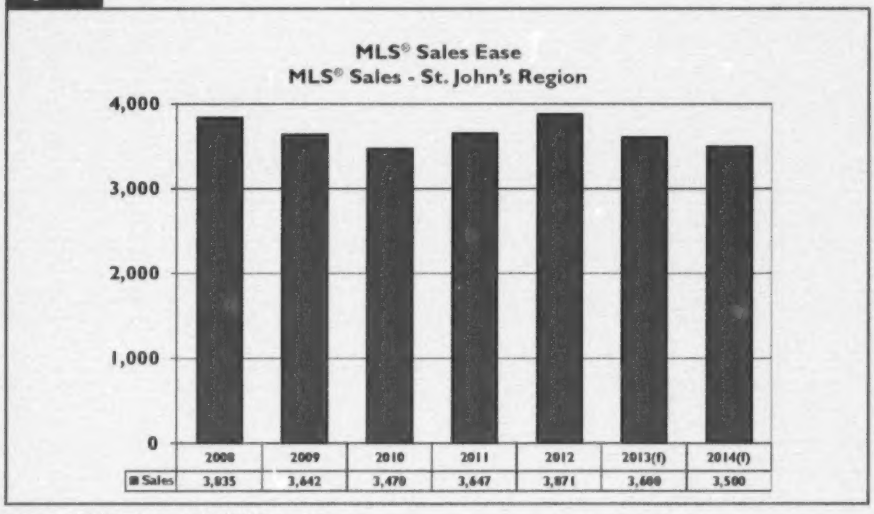
Figure 2



Source: CREA; Forecast: CMHC
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Note: Eastern Region (St. John's) MLS® data unavailable prior to 2008 calendar year

expected to grow by 2.5 per cent in 2013 and by 1.5 per cent in 2014. Numerous energy and exploration projects and activities have begun to ramp up recently. These new projects, due to their size and scope, will continue to stimulate economic activity over the next five years throughout NL, as well as the St. John's region.

Economic growth in 2013 will be driven by increased energy, mining and related private sector spending activity, as well as an improvement in oil production, following the slowdown in production in 2012. The province has also begun to benefit from increased oil and mining royalties, although the average oil price has been lower than expected.

Provincial population growth has slowed recently, as interprovincial migration remains negative and international migration, although positive, has not been enough to restart population growth above current levels. During this period of transition, housing activity will moderate over the next two years, until the next phase in growth is firmly established in the economy, once capital project activity employment peaks in 2015. The expectation is that population growth will return due to anticipated gains in interprovincial migration. Overall net-migration is expected to remain positive within the St. John's area.

Mortgage Rates to see Modest and Gradual Increases, but will Remain Low

In line with the consensus among private-sector forecasters, increases in the Target Overnight Rate by the Bank of Canada are not anticipated before mid-2014, later than anticipated at the time of the 2013 First Quarter Housing Market Outlook. This reflects the downward revisions in GDP forecasts since the publication of the First Quarter Housing Market Outlook, particularly the expectations of a slower economy in 2013. The expected delay in interest rate increases will continue to be supportive of housing market activity over the forecast horizon.

According to CMHC's base case scenario for 2013, the one-year mortgage rate is forecast to be within 3.00 per cent to 3.25 per cent with an average of 3.13 per cent, while the five-year posted mortgage rate is anticipated to be within 5.00 per cent to 5.50 per cent with an average of 5.28 per cent. For 2014, the one-year posted mortgage rate is expected to rise and be in the 3.25 per cent to 3.75 per cent range with an average of 3.42, while the five-year posted mortgage rate is forecast to be within 5.25 per cent to 5.75 per cent with an average of 5.53 per cent, consistent with higher economic growth prospects in 2014.

Mortgage rates are not expected to increase until mid 2014. The anticipated small and steady increases in mortgage rates will lead to somewhat higher mortgage rates by the end of 2014. However, these rates will remain low, by historical standards, over the forecast horizon.

Lower MLS® Sales in 2013 and 2014

The St. John's area MLS® market is expected to see lower sales activity this year and next. MLS® sales are expected to reach 3,600 units this year compared to 3,871 sales in 2012 and decline to 3,500 in 2014. With new home sales representing about one-third of total MLS® sales, residential construction activity, although lower than 2012, will continue to contribute to total MLS® sales over the forecast period. With overall housing demand expected to remain stable, MLS® sales will remain historically strong. The final sales number was 3,871 in 2012, which was

a record year for the St. John's area but is not expected to be maintained over the forecast period. Despite single-digit price growth, sales remain flat and inventory has been building. As a result, the expectation is for a decline from 2012's record sales activity this year and next.

Increases in the average MLS® residential price over the past few years have been driven to a large extent by strong new home construction activity and the subsequent selling of these homes through the MLS® system. With excess inventory now in the local resale market and demand for resale housing moderating, the forecast is for single-digit price growth this year and 2014. After five years of very strong growth, the average MLS® house price is forecast to grow more in line with inflation, ending this year up about four per cent to $297,500, compared to 2012's average of $285,529 and post further growth of about three per cent to $306,000 in 2014. Move-up buyers' preference for above-average priced two-storey and custom homes will continue to support higher prices in this market, while below average-priced bungalows, row and semi-detached homes will continue to attract the first-time buyer segment.

Housing Starts Activity to Moderate

The recent prosperity throughout the St. John's region has supported a preference for new higher-end homes. This trend has driven the average price of new homes considerably higher than the average MLS® price, with the differential in 2012 reaching a record level of $101,910. Residential construction activity continues to be driven by strength in both the local and provincial economies, particularly the growth in population, income and employment experienced throughout provincial capital of St. John's. That being said, recent price growth is expected to slow this year and in 2014. The average single-detached new home price will end 2013 at approximately $395,000 compared to $387,439 in 2012 and will reach $403,000 in 2014. Single-detached housing starts are expected to end this year at 1,400 units for the St. John's area and decline slightly to 1,350 units in 2014.

Lower Multiple Starts Activity

Coming off the heels of record condo development in 2012, fewer condo starts are expected in 2013 and 2014 and will result in lower overall multiple construction activity over the forecast period. The multiple unit segment of the market is expected to see 550 new units start construction in 2013 compared to 861 units last year. This will decline to 475 units in 2014. Record high average new single-detached home prices will contribute to the popularity of including a basement apartment in these new homes once again this year and next, as some buyers choose to add an income-generating apartment unit to offset mortgage carrying costs.

The recent rapid pace of development within the condo market has been due, in part, to an aging population and this will continue resulting in steady demand throughout the St. John's area in the coming years. However, buyer preference is to transition from a family home to a condo without taking on new or additional mortgage debt. Current prices within the condo market have made this move more difficult to achieve. As a result, mid-priced (under $350,000) condo development is expected to gain traction over the forecast period, while the higher-end condo market is expected to slow. Demand for row and semi-detached homes remains weak, despite the substantial house price growth in this market. This is mainly due to buyers opting for two apartment homes.

Total housing starts are forecast to end 2013 at 1,950 units within the St. John's region compared to 2,153 units in 2012. Expect a further decline to 1,825 new starts in 2014.

Rental Market to Ease

As demand weakens slightly, the rental market will ease this year and next with the vacancy rate expected to rise and rents increasing at a slower pace. On the demand side, increased economic activity will continue to have a positive impact on the in-migration of younger (age 25 to 34) workers to the St. John's region, primarily from other rural and some urban areas of the province. Also, current house prices will see the movement of renters to homeownership remain at reduced levels as they choose to continue to rent. Memorial University and local colleges continue to draw both local and international students, who rent within the area as well, which will also drive demand. Investment in new multi-unit apartment developments has begun for the first time in over 25 years and this will increase the supply of apartments this year and next, as new construction continues. Accordingly, the vacancy rate for surveyed structures containing three or more rental units (two-apartment homes excluded) is expected to increase to 3.5 per cent this year and to 3.8 per cent in 2014. Despite the expected increase, the vacancy rate will remain relatively low in historic terms and steady demand will continue to exert upward pressure on

average rents. Expect the average two-bedroom monthly rent to increase to $825 by the end of this year and to $850 in 2014.

Forecast Summary St. John's CMA Spring 2013							
	2010	2011	2012	2013f	% chg	2014f	% chg
New Home Market							
Starts:							
Single-Detached	1,479	1,304	1,292	1,400	8.4	1,350	-3.6
Multiples	337	619	861	550	-36.1	475	-13.6
Starts - Total	1,816	1,923	2,153	1,950	-9.4	1,825	-6.4
Average Price ($):							
Single-Detached	325,436	351,305	387,439	395,000	2.0	403,000	2.0
Median Price ($):							
Single-Detached	299,904	321,450	345,000	352,000	2.0	359,000	2.0
New Housing Price Index (% chg) (St. John's-Sudbury)	5.9	4.0	0.2	1.5	-	1.6	-
Resale Market							
MLS® Sales	3,470	3,647	3,871	3,600	-7.0	3,500	-2.8
MLS® New Listings	6,332	7,073	7,284	7,300	0.2	7,100	-2.7
MLS® Average Price ($)	251,191	268,608	285,529	297,500	4.2	306,000	2.9
Rental Market							
October Vacancy Rate (%)	1.1	1.3	2.8	3.5	0.7	3.8	0.3
Two-bedroom Average Rent (October) ($)	725	771	798	825	3.4	850	3.0
Economic Overview							
Mortgage Rate (1 year) (%)	3.49	3.52	3.17	3.00 - 3.25	-	3.25 - 3.75	-
Mortgage Rate (5 year) (%)	5.61	5.37	5.27	5.00 - 5.50	-	5.25 - 5.75	-
Annual Employment Level	100,900	105,400	109,200	112,500	3.0	115,500	2.7
Employment Growth (%)	2.3	4.5	3.6	3.0	-	2.7	-
Unemployment rate (%)	7.7	6.6	7.2	6.8	-	6.5	-
Net Migration	2,738	2,460	2,351	2,300	-2.2	2,200	-4.3

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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